

In the Matter of the Application of )  
Kansas Gas Service, A Division )  
of ONE Gas, Inc. for Adjustment ) DOCKET NO. 16-KGSG-\_\_\_\_-RTS  
of its Natural Gas Rates in the )  
State of Kansas )

**DIRECT TESTIMONY**  
**OF**  
**CRYSTAL D. TURNER**  
**ON BEHALF OF**  
**KANSAS GAS SERVICE**  
**A DIVISION OF ONE GAS, INC**

**DIRECT TESTIMONY**  
**OF**  
**CRYSTAL D. TURNER**  
**KANSAS GAS SERVICE**

DOCKET NO. 16-KGSG-\_\_\_-RTS

**I. INTRODUCTION**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Crystal D. Turner. My business address is 15 E. Fifth Street, Tulsa,  
3 Oklahoma.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by ONE Gas, Inc. (“ONE Gas” and/or “OGS”) as a Rates Analyst for  
6 ONE Gas.

7 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**  
8 **EXPERIENCE.**

9 A. I received a Master’s of Science Degree in Quantitative Financial Economics from  
10 Oklahoma State University in 2012 and a Bachelor’s of Science Degree in Statistics  
11 with minors in Mathematics and Spanish as well as an Honors Degree with  
12 International Emphasis from Oklahoma State University in 2008. I began my career  
13 with ONE Gas on May 12, 2014 as a Rates Analyst. Prior to joining ONE Gas, I  
14 worked as a Risk Analyst for Seminole Energy Services, LLC from February 2012 to  
15 April 2014. From May 2011 to January 2012, I worked as a Technical Sales Support  
16 Intern. In my current capacity with ONE Gas, my responsibility is assisting the  
17 distribution companies with the review and analysis of company financial data and  
18 records.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE REGULATORY**  
2 **COMMISSIONS?**

3 A. Yes, I have provided written testimony to the Oklahoma Corporation Commission.

4 **Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR**  
5 **TESTIMONY?**

6 A. Yes, I have prepared and sponsor Exhibit CDT-1 attached to my testimony  
7 containing the Company's Cost Allocation Methodology ("CAM").

8 **Q. ARE YOU SUPPORTING ANY OF THE MINIMUM FILING REQUIREMENT**  
9 **SCHEDULES?**

10 A. Yes, I am supporting Schedules 12-A and 12-B.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my testimony is to: 1) explain and support the Company's cost  
13 allocation methodology, including the ONE Gas Distrigas<sup>1</sup> formula; 2) identify and  
14 quantify ONE Gas corporate capital investment, prepayments, depreciation and  
15 amortization expense allocated to Kansas Gas Service ("KGS" or the "Company");  
16 and 3) explain and support the Company's operating expense adjustments for  
17 corporate expenses allocated to KGS, including KGS's direct short-term incentive  
18 compensation.

19 **II. COST ALLOCATION METHODOLOGY**

20 **Q. WHAT IS THE PURPOSE OF COST ALLOCATIONS?**

21 A. The purpose of cost allocations is to reasonably allocate each division's  
22 proportionate share of costs for services it receives from ONE Gas. Because the  
23 costs to provide these services are "shared" by multiple divisions, cost responsibility  
24 for these services must be reasonably allocated among the various ONE Gas

---

<sup>1</sup> Distrigas of Mass. Corp., Opinion No. 291, 41 FERC 61,205 (1987) ("Distrigas").

1 divisions. This allocation is accomplished by applying the Company's cost allocation  
2 methodology.

3 **Q. PLEASE DESCRIBE THE METHODOLOGY EMPLOYED BY ONE GAS TO**  
4 **ALLOCATE COSTS AMONG ITS DIVISIONS.**

5 A. Costs incurred by ONE Gas or any of its divisions can be described as either direct  
6 or indirect. To the extent that responsibility for costs can be specifically attributed to  
7 a division, those costs are directly assigned. Indirect costs are those costs that  
8 cannot be specifically attributed, and they are allocated along principles of cost  
9 causation. If costs cannot be directly assigned, but a specific measurement can be  
10 identified, then these indirect costs are allocated using a specific causal relationship,  
11 such as customer count. Any remaining indirect costs are allocated according to an  
12 allocation formula that has been approved in Oklahoma and Texas. The Kansas  
13 Corporation Commission (KCC) accepted ONEOK's allocation methodology in a  
14 settled 2005 Kansas Gas Service rate case<sup>2</sup> and in its most recent 2012 rate case.<sup>3</sup>  
15 This formula is known as the Modified Distringas methodology, referred to in the CAM  
16 as ONE Gas Distringas or OGS Distringas.

17 **Q. PLEASE BRIEFLY EXPLAIN "DIRECT COSTS".**

18 A. Direct costs are those charges that can be specifically attributed to a division, such  
19 as KGS and therefore, are charged directly to KGS. Examples of directly assigned  
20 costs incurred at the division level include certain information technology ("IT")  
21 services, line location services, and facilities management. Examples of corporate  
22 costs directly assigned to each of the OGS divisions include services such as

---

<sup>2</sup> *In the Matter of the Application of Kansas Gas Service, a Division of ONEOK, Inc., for Adjustments of Its Natural Gas Service in the State of Kansas*, Docket No. 06-KGSG-1209-RTS, Order Granting Joint Motion and Approving Stipulated Settlement Agreement (Nov. 16, 2006).

<sup>3</sup> *In the Matter of the Application of Kansas Gas Service, a Division of ONEOK, Inc. for Adjustment of Its Natural Gas Rates in the State of Kansas*, Docket No. 12-KGSG-835-RTS, Order Approving Stipulated Settlement Agreement (Dec. 5, 2012).

1 Internal audit services to the division being audited, property accounting labor and  
2 benefits to each division for which the employee has accounting responsibility,  
3 certain regulatory affairs costs to the entity receiving benefits of the services  
4 provided, and environmental management and safety programs to the entity  
5 responsible for the environment or safety cost incurred.

6 **Q. PLEASE EXPLAIN “INDIRECT COSTS”.**

7 A. Indirect costs are those costs incurred to provide services that cannot be directly  
8 assigned to a particular division and are shared costs. Examples of corporate indirect  
9 costs are discussed below. Indirect costs are allocated to each division either on a  
10 causal basis or through OGS Dstrigas.

11 **Q. HOW ARE INDIRECT COSTS ALLOCATED?**

12 A. Indirect costs are allocated either on a causal basis or through OGS Dstrigas. Costs  
13 allocated using causal relationships are based on specific measurements such as  
14 participation level, activity level, output level, or resource consumption. Employee  
15 health and welfare benefits for active employees are an example of an indirect cost  
16 allocated on a causal basis as measured by output level. These costs are allocated  
17 using the causal relationship of employee headcount for each respective business  
18 entity. Employee health and welfare benefits for active employee costs allocated to  
19 corporate departments (HR, Accounting, IT, etc.) are then allocated to the business  
20 entities through OGS Dstrigas, which is discussed below.

21 Other examples of causal allocation factors include a percentage of customer  
22 count for the Billing Control Group, a percentage of gross plant, property, and  
23 equipment for Property Accounting and percentage of invoice processing volume by  
24 business entity for Accounts Payable. Section 12, Schedule 12-B of the rate case  
25 application filed in this case, provides a summary showing the quarterly factors used  
26 to calculate the causal allocation factors.

1 All other indirect costs that cannot be charged directly or cannot be  
2 associated with an identifiable causal relationship are allocated through OGS  
3 Distrigas.

4 **Q. PLEASE DESCRIBE THOSE SERVICES AND COSTS ALLOCATED THROUGH**  
5 **OGS DISTRIGAS.**

6 A. ONE Gas provides a number of services that benefit all three of its divisions. Certain  
7 centralized corporate services activities are recorded initially on the corporate  
8 general ledger and include functions necessary for the overall governance of any  
9 large, publicly held company and are then allocated to the various ONE Gas  
10 divisions using the Distrigas factor.

11 A brief summary of the services is provided below and a more detailed  
12 explanation of each service can be found in the CAM attached to my testimony as  
13 Exhibit CDT-1.

- 14 • Human Resources – Workforce development support and training programs  
15 for all active employees.
- 16 • Information Technology – Supports ONE Gas' divisions by developing and  
17 administering disaster recovery, data backup and recovery, data center and  
18 support of all Company technology.
- 19 • Finance and Accounting – Supports ONE Gas' divisions by administering  
20 processes related to corporate general accounting, SEC and external  
21 reporting, and treasury.
- 22 • Corporate Services – Supports ONE Gas' various divisions by developing  
23 and administering programs and processes that facilitate general day-to-day  
24 business activities such as purchasing, facilities, business continuity and  
25 environmental safety and health initiatives.

1 Finally, as noted in the CAM, certain miscellaneous costs such as rent and utilities,  
2 impacting all divisions are also allocated.

3 **Q. WOULD KGS REQUIRE THE SAME TYPES OF SERVICES AS THOSE**  
4 **PROVIDED BY ONE GAS IF IT WERE A STAND-ALONE BUSINESS ENTITY?**

5 A. Yes, the Company would require the same type of services. These services are  
6 necessary for the operation of any gas utility business, regardless of whether the  
7 services are performed centrally or on a decentralized basis at the service area level.  
8 Having these services performed centrally allows for economies of scale and the  
9 costs of those services to be spread across the Company's divisions for which the  
10 services are provided.

11 **Q. PLEASE DESCRIBE THE HISTORY OF THE DISTRIGAS ALLOCATION**  
12 **METHODOLOGY.**

13 A. The Dstrigas method was first approved by the Federal Energy Regulatory  
14 Commission ("FERC") in a rate proceeding for a natural gas transmission company,  
15 Dstrigas of Massachusetts Corporation.<sup>4</sup> The formula used by Dstrigas was a slight  
16 modification of the old Massachusetts formula (a three-part formula consisting of  
17 gross plant, gross revenues and payroll) which, prior to the acceptance of the  
18 Dstrigas method, was widely accepted by numerous regulatory agencies across the  
19 country. In its opinion, FERC accepted the Modified Dstrigas method (a three-part  
20 formula consisting of gross plant, net revenues and payroll) as a reasonable and  
21 acceptable methodology for allocating costs for ratemaking purposes.

22 **Q. HAS THE COMMISSION PREVIOUSLY REVIEWED THE COST ALLOCATION**  
23 **METHODOLOGY USED BY THE COMPANY IN PREPARING THIS FILING?**

24 A. Yes they have. The Commission reviewed and accepted ONEOK's allocation  
25 methodology in a settled 2005 Kansas Gas Service rate case and in its most recent

---

<sup>4</sup> Dstrigas of Mass. Corp., Opinion No. 291, 41 FERC 61,205 (1987).

1 2012 rate case. This methodology has been used by the Company since 1994 to  
2 allocate corporate administrative costs, and has not changed as a result of the  
3 separation from ONEOK<sup>5</sup>. It is important to ONE Gas to have a common allocation  
4 methodology approved by the respective regulatory agencies to ensure that the  
5 method is fair to each of the ONE Gas divisions and their customers. Additionally, the  
6 Railroad Commission of Texas and the Oklahoma Corporation Commission have  
7 approved ONEOK's refinement of the Modified Distringas allocation method used by  
8 ONE Gas.

9 **Q. PLEASE FURTHER DESCRIBE THE ONE GAS DISTRIGAS METHOD.**

10 A. ONE Gas' Distringas method uses a three-factor formula comprised of: (1) gross plant  
11 and investments; (2) operating income (income before interest expense and income  
12 taxes); and (3) labor expense. As with the standard Distringas method, the factors are  
13 individually calculated and then a simple average is calculated using the three  
14 component percentages.

15 OGS Distringas utilizes gross plant and investments rather than just gross  
16 plant in the event that ONE Gas includes investment in businesses that are not  
17 directly operated by ONE Gas. ONE Gas also uses operating income rather than net  
18 revenues as an allocator. It does this to eliminate the cost of gas component. These  
19 modifications further refine the Distringas method to fairly and reasonably allocate the  
20 costs to the ONE Gas divisions, including KGS.

21 **Q. IS THE OGS DISTRIGAS METHOD USED FOR ALL ONE GAS DIVISIONS?**

22 A. Yes, the OGS Distringas method is used for all ONE Gas divisions. This ensures that  
23 ONE Gas allocates corporate costs to each division on a consistent basis applying  
24 the same cost-causation principles and methodology. Section 12, Schedule 12-A of

---

<sup>5</sup> *In the Matter of the Application of ONEOK, Inc., for an Order Authorizing its Plan of Reorganization*, Docket No. 14-KGSG-100-MIS, Order Approving Unanimous Settlement Agreement (Dec. 19, 2013), FoF 41 sub-part 9.



1 the rate case application filed in this case provides a summary showing the quarterly  
2 factors used to calculate the OGS Dstrigas allocation factors.

3 **Q. IS THE DISTRIGAS METHODOLOGY REASONABLE?**

4 A. Yes. As I mentioned, the OGS Dstrigas methodology allows ONE Gas to allocate  
5 corporate costs to each of its divisions on a consistent basis by applying the same  
6 cost-causation principles and methodologies. It has been accepted as a reasonable  
7 means of allocating corporate costs by this Commission, the Texas Railroad  
8 Commission and the Oklahoma Corporation Commission.

9 **Q. HAS THE COMPANY REMOVED CERTAIN UNRECOVERABLE EXPENSES**  
10 **FROM ITS RATE FILING?**

11 A. Yes. The Company may at times incur expenses that are not recoverable in rates.  
12 Examples of these types of expenses include contributions to political organizations  
13 and legislative advocacy. Nevertheless, the cost of these services is billed to the  
14 divisions using the Company's cost allocation methodology, regardless of whether  
15 the divisions request recovery of those costs from customers. These costs are  
16 charged using separate accounts specifically established to enable the Company to  
17 identify and track these expenditures so they can be eliminated during the course of  
18 preparing regulatory filings and not recovered from customers.

19 **Q. HAVE ANY OTHER COSTS NOT BEEN INCLUDED IN THIS FILING?**

20 A. Yes, they have, and I detail the adjustment related to these costs below.

21

22 **III. ADJUSTMENTS**

23 **Q. YOU INDICATED EARLIER THAT YOU ARE SPONSORING ADJUSTMENTS TO**  
24 **ONE GAS CORPORATE CAPITAL INVESTMENT, PREPAYMENTS,**  
25 **DEPRECIATION, AND AMORTIZATION EXPENSES ALLOCATED TO KGS.**  
26 **PLEASE IDENTIFY THOSE ADJUSTMENTS.**

1 A. The adjustments I am sponsoring are summarized below in Table 1:

Table 1						
Adjustment Number	Description	KGS Direct	Corporate Costs allocated on a causal basis	Distrigas Adjustment Amount	Total Increase (Decrease) to Rate Base	Page
PLT 3	Corporate Assets		\$40,067,216	\$21,458,160	\$61,525,376	11
ADA 2	Accumulated Depreciation on Corporate Assets		\$13,630,494	\$3,062,745	\$16,693,239	12
WC 1	Corporate Prepayments (165)			\$3,759,835	\$3,759,835	12
WC 2	Corporate Long-Term Prepayments (186)			\$618,099	\$618,099	12
					Total Increase (Decrease) to Operating Income	
IS 28	Annualized Corporate Depreciation and Amortization				\$(412,670)	13
IS 29	Miscellaneous Corporate Charges			\$267,310	\$267,310	13
IS 30	Change in Allocation Ratio			\$336,434	\$336,434	13
IS 31	Normalize Short Term Incentive Compensation	\$763,932		\$1,453,267	\$2,217,199	14
IS 32	Corporate Payroll		\$(389,734)	\$(809,107)	\$(1,198,841)	14
IS 33	OPEB, Pension, and Health Benefits			\$15,054	\$15,054	14

1 **A. RATE BASE ADJUSTMENTS**

2 **Q. PLEASE BEGIN WITH AN EXPLANATION FOR RATE BASE ADJUSTMENT PLT**

3 **3.**

4 A. PLT 3 increases the Company's Plant in Service to include Corporate Assets  
5 allocated to KGS in the amount of \$61,525,376. The adjusted plant in service  
6 amount allocated to KGS on a causal basis is \$40,067,216. The adjusted plant in  
7 service amount allocated to KGS using OGS Distrigas is \$21,458,160. These assets  
8 are necessary in the provision of utility service to KGS, but are not reflected on the  
9 division books of KGS, thus this adjustment is necessary to include them in Rate  
10 Base for purposes of determining the KGS revenue requirement. The adjustment  
11 allocates the plant in service using the allocation percentages for the first quarter of  
12 2016.

13 **Q. WHAT IS THE AMOUNT ONE GAS HAS INVESTED AT THE CORPORATE**  
14 **LEVEL IN PLANT IN SERVICE?**

15 ONE Gas has \$184.6 million in plant in service and construction completed not  
16 classified (CCNC) (\$199.9 million total investment less \$15.3 million in reductions).

17 **Q. WHAT IS THE \$15.3 MILLION REDUCTION TO INVESTMENT REPRESENT?**

18 A. The \$15.3 million reduction to investment represents assets that OGS's  
19 management has decided not to seek recovery of in this rate case. The adjustment  
20 includes removal of aviation related assets and software used for contributions and  
21 donations.

22 **Q. DID YOU MAKE AN ADJUSTMENT TO THE PLANT IN SERVICE ALLOCATED**  
23 **TO KGS?**

24 A. Yes. I included the KGS allocated portion of the corporate balance of Construction  
25 Work in Progress ("CWIP") at the end of the test period. The total CWIP allocated to  
26 KGS is \$1.89 million.

1 **Q. PLEASE PROVIDE AN EXPLANATION FOR RATE BASE ADJUSTMENT ADA 2.**

2 A. ADA 2 is the Accumulated Provision for Depreciation and Amortization adjustment  
3 for Corporate Assets allocated to KGS in the amount of \$16,693,239. The adjusted  
4 accumulated provision for depreciation and amortization adjustment amount  
5 allocated to KGS on a causal basis amounts to \$13,630,494. The adjusted  
6 accumulated provision for depreciation and amortization amount allocated to KGS  
7 using ONE Gas Distrigas is \$3,062,745, making the ADA 2 total adjustment  
8 \$16,693,239. This adjustment recognizes the portion of the Accumulated  
9 Depreciation and Amortization Reserve associated with ONE Gas' Plant in Service  
10 allocated to KGS in PLT 3. Within ADA 2, adjustments were made that correspond  
11 with the adjustments discussed in PLT 3. PLT 3 and ADA 2 have a net increase to  
12 rate base of \$44,832,137.

13 **Q. PLEASE PROVIDE AN EXPLANATION FOR WORKING CAPITAL ADJUSTMENT**  
14 **WC 1 and WC 2.**

15 A. WC 1 and WC 2 increases rate base \$3,759,835 and \$618,099, respectively, by  
16 calculating the average 13-month balance for corporate prepayments and long-term  
17 prepayments allocated to KGS. Prepayments are included in Rate Base as they  
18 represent an investment the Company has made in the provision of utility service,  
19 similar to the plant in service assets. Corporate allocated prepayments are included  
20 to recognize advances for such items as insurance policy premiums allocated to  
21 KGS. The Company maintains a prepayment balance to cover annual insurance  
22 premiums for policies such as general liability, automobile, workers' compensation,  
23 property insurance, as well as annual equipment and software maintenance  
24 agreements, software license fees and other miscellaneous prepaid items. By taking  
25 the average balance over 13 months, fluctuations in prepayment accounts during the  
26 test year are normalized. The average 13-month balance has been adjusted to

1 remove activity for which management has decided not to seek recovery, such as  
2 aviation insurance, maintenance fees for the software used for contributions and  
3 donation and lobbying related to American Gas Association (AGA) membership fees.  
4 The adjustment allocates the prepayment 13-month average using the OGS  
5 Distrigas allocation percentage for the first quarter of 2016.

6 **B. DEPRECIATION AND AMORTIZATION ADJUSTMENT**

7 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
8 **ADJUSTMENT IS 28.**

9 A. IS 28 increases Depreciation and Amortization expense by \$412,670 to reflect the  
10 change in depreciation and amortization rates proposed by Company witness Dr.  
11 White and the change in allocation of costs assigned to KGS based on first quarter  
12 2016 allocation ratios corresponding to the adjusted plant amount in PLT 3.

13 **C. CORPORATE COST ADJUSTMENTS**

14 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
15 **ADJUSTMENT IS 29.**

16 A. IS 29 reduces Operating Expenses \$267,310. This adjustment removes costs  
17 related to governmental relations, civic activities, non-utility activity, aviation,  
18 contributions and donations, and other corporate support costs for which  
19 management has elected not to seek recovery in this case. This adjustment also  
20 includes the annualization of corporate office lease costs and insurance.

21 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
22 **ADJUSTMENT IS 30.**

23 A. IS 30 reduces Operating Expenses \$336,434. This adjustment reflects the  
24 annualization of corporate costs allocated through OGS Distrigas based upon the  
25 first quarter 2016 KGS Distrigas ratio.

1 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
2 **ADJUSTMENT IS 31.**

3 A. IS 31 reduces expenses by \$2,217,199 related to ONE Gas' 2015 short-term  
4 incentive (STI) compensation. This adjustment includes the amounts that were direct  
5 charged to KGS as well as the amounts that were allocated through OGS Distrigas.  
6 The adjustment reflects removal of STI in excess of 100 percent, resulting in a  
7 normalized level of STI costs. An additional adjustment was made to remove prior  
8 year activity recorded during the test year.

9 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
10 **ADJUSTMENT IS 32.**

11 A. IS 32 increases expenses \$1,198,841. The expense adjustment annualizes  
12 corporate payroll, FICA taxes, Medicare, 401K and Profit Share based on the last  
13 pay period of the test year.

14 **Q. PLEASE PROVIDE AN EXPLANATION FOR INCOME STATEMENT**  
15 **ADJUSTMENT IS 33.**

16 A. IS 33 reduces expenses \$15,054. This adjustment annualizes the known and  
17 measurable changes in Other Post-Employment Benefits ("OPEB"), Pension, and  
18 Employee Health Benefit costs associated with corporate employees.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes it does.

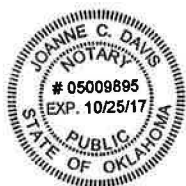
**VERIFICATION**

STATE OF OKLAHOMA    )  
  ) ss.  
COUNTY OF TULSA    )

Crystal D. Turner, being duly sworn upon her oath, deposes and states that she is employed in the Rates Analyst I position for ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

  
CRYSTAL D. TURNER

Subscribed and sworn to before me this 25<sup>th</sup> day of April 2016.



  
NOTARY PUBLIC

My appointment Expires:

October 25, 2017



## CORPORATE ALLOCATION MANUAL

---

Revised March 31, 2015  
Corporate Accounting Department

The Corporate Allocation Manual provides documentation for current practices used by ONE Gas, Inc. (ONE Gas) for allocation of corporate administrative costs to ONE Gas business entities. A business entity is defined as a division or subsidiary of ONE Gas. Corporate administrative costs that are incurred for the direct benefit of one specific business entity, known as direct costs, are not addressed in this manual because the objective and scope of this manual pertains to general charges that cannot be assigned to a single operating business entity.

ONE Gas maintains a fully distributed cost model that provides a reasonable and justifiable method of cost assignment, so that each business entity receives its proportionate share of corporate administrative costs and prevents subsidization.

Proper classification of costs is the responsibility of each employee and his or her supervisor when preparing, approving, and processing any accounting document (invoices, amortizations, journal entries, etc.). The classification of costs includes assigning the appropriate account coding string as defined in our Classification of Accounts Manual (which includes codes for company, cost center, natural account, expense indicator and RFU) when processing the transaction. The account coding string is the basis upon which costs are identified as costs to be allocated in our process.

### **Three-Step Allocation Process**

The application of our fully distributed cost allocations occurs through a "three-step" allocation method. The first step begins with the premise that to the extent practical, direct costs specifically attributed to a business entity are charged directly to that business entity. In the second step, indirect costs that are significant in amount, but which cannot be charged directly are allocated to business entities on the basis of a causal relationship. The causal relationships are specific measurements based on the type of cost, which can be a measure of participation level, activity level, output level, or resource consumption. In the third step, any remaining costs, which cannot be charged directly or associated with an identifiable causal relationship, are allocated to business entities using the ONE Gas's Modified Distringas Allocation methodology (ONE Gas Distringas).

### **ONE GAS Distringas Methodology**

The Distringas Cost Allocation Methodology (Distringas Method) was first approved by the Federal Energy Regulatory Commission (FERC) in a rate proceeding for a natural gas transmission company, Distringas of Massachusetts, L.L.C. The Distringas formula is a slight

---





## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

---

modification of the Massachusetts Allocation Method (a three part formula consisting of gross plant, gross revenues and payroll) which, prior to the acceptance of the Distrigas formula, was widely accepted by numerous regulatory agencies across the country as a just and reasonable method of allocating corporate overhead and other costs. In its preceding at the FERC, Distrigas of Massachusetts, L.L.C. argued that the Massachusetts formula was flawed in that it over-allocated costs to utilities due to its inclusion of the cost of fuel in gross revenues. This had the effect of inflating the allocation of costs to utility operations which benefitted non-utility operations. The FERC agreed and accepted the modified version of the formula, which is generally known as the Distrigas Method, as a reasonable and acceptable methodology for allocating costs for ratemaking purposes

ONE Gas, Inc. has used the Distrigas Method as the basis for its methodology to allocate corporate administrative costs since 1994. It is important to ONE Gas to have a common allocation methodology that is broadly accepted by our regulatory authorities and that results in a justifiable and reasonable allocation of corporate administrative costs to each of ONE Gas's business entities.

The ONE Gas Distrigas methodology uses a three factor formula comprised of the average of gross plant and investments, net operating income and labor expenses (excluding contract labor).

To calculate the overall allocation factor for each business entity, the three allocation factor amounts are determined for each business entity and calculated as a percentage of the consolidated total. In cases when a business entity has an operating loss, a factor of zero is used for the operating income allocation factor. The three component allocation factors for each business entity are then combined using a simple average to derive the overall allocation factor.

ONE Gas periodically reviews its existing allocation methodologies to ensure that costs are being appropriately allocated. ONE Gas's Distrigas allocation factors are updated quarterly or when significant changes to its corporate structure occur, such as acquisitions, divestitures, or corporate restructuring.

ONE Gas uses the following methodology to allocate costs when costs cannot be charged directly or allocated using a causal relationship to a business entity. The allocation methodology allows the allocation of costs to the business entities that



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

receive the benefit of the administrative costs. The allocation methodology is described as follows:

Methodology Name	Cost Center	Description
OGS-Distrigas	1007	Calculates allocation percentages using the respective allocation factors for the business entities of ONE Gas's business entities including Oklahoma Natural Gas, Kansas Gas Service, and Texas Gas Service.

Appendix A provides an example calculation of ONE Gas's Distrigas methodology.

### Allocated Costs

Costs to be allocated can be aggregated in the following general categories:

- Executive
- Human Resources (HR)
- Information Technology (IT)
- Finance and Accounting
- General Counsel
- Corporate Communications
- Corporate Services (includes Environmental Health & Safety)
- Other

The costs allocated in these general categories are allocated in accordance with our "three step allocation methodology" described above. The following sections provide a general description of the types of costs allocated in each general category and the method in which those costs are allocated.

#### Executive

The executive organization provides leadership and strategic direction for ONE Gas's business activities. Examples of costs incurred in this area are related to salaries and expenses of the President and Chief Executive Officer, his or her direct reports, and



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

corporate officers with responsibility for corporate administrative functions that are not assigned to a specific business entity. These costs are primarily allocated through the OGS-Distrigas methodology.

### Human Resources

The HR organization supports our various business entities and the employees of ONE Gas by developing and administering plans and processes related to compensation, employee benefits, employee development and payroll. Typical examples of costs incurred in this area are related to:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Administrative fees for all defined plans, health & welfare and retirement plans	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.</li> <li>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Health and welfare benefits for active employees	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of employee headcount or plan participant count for each respective business entity.</li> <li>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	the OGS-Distrigas methodology.
Retirement benefits for active and retired employees	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity where the plan participant works at each measurement date or where the plan participant worked immediately prior to retirement.</li> <li>2. Plan participant or retiree costs allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Workforce development support and training programs for all active employees	Allocated through the OGS-Distrigas methodology.
HR administration and financial services support, including compensation, payroll and benefits accounting and IT support	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of employee headcount for each respective business entity.</li> <li>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>

Information Technology



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

The IT organization supports our various business entities by developing and administering plans and processes related to technology solutions and security to facilitate day to day business activities. Typical examples of costs incurred in this area are related to:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
IT administrative functions such as administration, financial planning, accounting and reporting	Allocated through the OGS-Distrigas methodology
Disaster recovery, data backup and recovery, change management and problem management	Allocated through the OGS-Distrigas methodology.
Websites, intranet, business intelligence, legal applications, imaging and scanning, and document management technologies	Allocated through the OGS-Distrigas methodology.
ONE Gas customer billing system	Allocated using the causal relationship of customer count for each of the business entities.
Data center and support of all of the company technology	<ol style="list-style-type: none"> <li>1. Allocated through the OGS- Distrigas methodology.</li> <li>2. Labor and benefits for employees supporting ONE Gas's business entities are allocated equally.</li> </ol>
Cell phones, local and long distance telephone service, pagers and internet expenses	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the service.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	Distrigas methodology.
Financial and HR systems and related systems such as fixed asset accounting, project estimation and accounting, financial reporting and HR reporting	Allocated through the OGS-Distrigas methodology.
Supporting the operational accounting systems and the measurement systems used for non-residential gas meters	Charged directly to the business entity that is providing service to the non-residential gas meter.
Support and maintenance of the corporate and operations applications such as cash management systems	<ol style="list-style-type: none"> <li>1. Labor and benefit costs are allocated based on an internally developed analysis.</li> <li>2. Other costs are charged directly to the business entity receiving benefit of the service.</li> <li>3. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Supporting systems related to field operations including construction and engineering	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the service.</li> <li>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Support of the SCADA system and the pipeline control groups	<ol style="list-style-type: none"> <li>1. Allocated using the causal relationship of the number of remote terminal units utilized by</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	<p>the business entity.</p> <p>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</p>
Support of the Sarbanes-Oxley compliance software and network security monitoring	Allocated through the OGS-Distrigas methodology.
Pipeline Support Systems	Charged directly to the business entity receiving benefit of the service.

### Finance and Accounting

The Finance and accounting organization supports our various business entities by administering processes related to corporate accounting, financial reporting, tax, credit, risk and insurance, internal audit, financial planning and business development. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Corporate general accounting and consolidations, corporate financial planning and business development	Allocated through the OGS-Distrigas methodology.
SEC and external reporting for ONE Gas	Allocated through the OGS-Distrigas methodology.
Accounts payable	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of invoice processing volume by business entity.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	(Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Treasury Services	Allocated through the OGS-Distrigas methodology.
Federal and state income tax, ad valorem, sales & use tax and franchise tax filings	<ol style="list-style-type: none"> <li>1. Taxes incurred are charged directly to the business entity incurring the tax obligation.</li> <li>2. General administrative costs, including labor and benefits are charged directly to the business entity receiving benefit of the service.</li> <li>3. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Maintaining long-term financing and short-term working capital	<ol style="list-style-type: none"> <li>1. General administrative costs associated with our finance department are allocated through the OGS-Distrigas methodology.</li> </ol>
Risk mitigation and insurance	<ol style="list-style-type: none"> <li>1. Labor, benefits and administrative expenses associated with administration of our insurance programs are allocated to the business entities through the OGS-Distrigas methodology.</li> <li>2. Costs associated with specific insurance programs are allocated as follows: <ol style="list-style-type: none"> <li>a. Primary &amp; Excess Workers' Compensation: Allocated using the causal relationship of</li> </ol> </li> </ol>





## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	<p>employee headcount for each respective business entity.</p> <ul style="list-style-type: none"> <li>b. Vehicle: Allocated using the causal relationship of vehicle count for each respective business entity.</li> <li>c. Excess Liability: Allocated through the OGS-Distrigas methodology.</li> <li>d. Directors &amp; Officers Liability: Allocated through the OGS-Distrigas.</li> <li>e. Property and Terrorism: Allocated using the causal relationship of property values for each respective business entity.</li> <li>f. Various others (e.g. Fiduciary Liability, Blanket Crime, Mail and Transit, etc.): Allocated through the OGS- Distrigas methodology</li> </ul>
Internal audit services (which includes our costs related to compliance with the Sarbanes-Oxley Act of 2002)	<ul style="list-style-type: none"> <li>1. Charged directly to the business entity being audited.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ul>
Independent auditor fees	<ul style="list-style-type: none"> <li>1. Charged directly to the business entity being audited.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities</li> </ul>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	through the OGS-Distrigas methodology.
Property Accounting - centralized accounting for the property, plant & equipment	<ol style="list-style-type: none"> <li>1. Labor and benefits are charged directly to each business entity for which the employee has accounting responsibility.</li> <li>2. General and administrative supplies and expenses are allocated based on the causal relationship of gross property, plant, and equipment values.</li> </ol>
Billing Control - centralized accounting for the customer billing process	Allocated to the business entity based on the causal relationship of customer count.

### General Counsel

The general counsel organization supports our various business entities by administering processes related to legal aspects of our day-to-day business activities. Typical examples of costs incurred in this area are related payroll and business expenses (including third party legal costs) associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Third-party damages and workers' compensation claims	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity incurring the damages or workers' compensation claim.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	through the OGS-Distrigas methodology.
Commercial contracts	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity named in the commercial contract.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Regulatory affairs	<ol style="list-style-type: none"> <li>1. Allocated directly based on the business entity receiving benefits of the services provided.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Human resources	<ol style="list-style-type: none"> <li>1. Allocated using the causal relationship of employee headcount for each respective business entity.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Litigation	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefits of the services provided.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Corporate secretary and board of	Allocated through the OGS- Distrigas



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

directors	methodology.
General legal matters	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the legal services.</li> <li>2. Costs not attributable to a specific business entity are allocated through the OGS- Distrigas methodology.</li> </ol>

### Corporate Communications

The corporate communications organization supports our various business entities by administering processes related our corporate communications efforts with employees and external stakeholders. Typical examples of costs incurred in this area are related payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Investor relations	Allocated through the OGS-Distrigas methodology.
Governmental affairs	<ol style="list-style-type: none"> <li>1. Costs are charged directly to the business entity receiving benefit of the services provided.</li> <li>2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Corporate communications (including advertising costs ,costs associated with electronic communications and costs associated with general employee communications)	<ol style="list-style-type: none"> <li>1. Costs are charged directly to the business entity receiving benefit of the services provided.</li> <li>2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Corporate responsibility (includes civic	Allocated through the OGS-Distrigas

## CORPORATE ALLOCATION MANUAL



Revised March 31, 2015  
Corporate Accounting Department

donations)

methodology.

Corporate Services (includes Environmental Health & Safety)

The corporate services organization supports our various business entities by developing and administering programs and processes that facilitate general day-to-day business activities and environmental safety and health initiatives. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Purchasing and materials management	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Facilities and fleet management	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Right-of-way management	<ol style="list-style-type: none"> <li>1. Allocated using a causal</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	<p>relationship derived from an internally developed analysis of business entities usage of departments' services.</p> <p>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</p>
Business continuity planning	Allocated through the OGS-Distrigas methodology.
Environmental management	<p>1. Charged directly to the business entity responsible for the environmental cost incurred.</p> <p>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated through the OGS-Distrigas methodology.</p>
Safety programs	<p>1. Charged directly to the business entity responsible for the cost incurred.</p> <p>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</p>
Aviation services	Allocated through the OGS-Distrigas methodology.

Other



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

This section represents miscellaneous costs impacting multiple business entities

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Incentives, short- and long-term (stock-based compensation)	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Employee stock purchase program and employee stock awards, excluding long-term incentives	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.</li> <li>2. Costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) or to ONE Gas Partners are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
ONE Gas rent and utilities	<ol style="list-style-type: none"> <li>1. Charged directly to the business entities with operations in the corporate building based on square footage utilized.</li> <li>2. Costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) or to</li> </ol>



## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	ONE Gas are allocated to the business entities through the OGS-Distrigas methodology.
Payroll taxes	<ol style="list-style-type: none"> <li>1. Charged directly to each employee's respective payroll organization.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Other taxes (ad valorem, franchise, etc.)	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity incurring the tax obligation.</li> <li>2. Costs not identifiable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Depreciation associated with general corporate assets	<p>Allocated through the OGS-Distrigas methodology except as follows:</p> <ol style="list-style-type: none"> <li>a. Banner Customer Information System: Allocated using the causal relationship of customer count for each business entity.</li> <li>b. PowerPlant Fixed Asset Accounting System: Allocated</li> </ol>





## CORPORATE ALLOCATION MANUAL

Revised March 31, 2015  
Corporate Accounting Department

	<p>using the causal relationship of Gross PP&amp;E value attributable to each business entity.</p> <ul style="list-style-type: none"><li>c. Dynamic Risk pipeline safety software: Allocated using the causal relationship of miles of pipe for the entities using the software.</li><li>d. Maximo: Allocated using the casual relationship of user count for each business entity.</li><li>e. Concur: Allocated using the casual relationship of employee count for each business entity.</li><li>f. Journey: Allocated using the casual relationship of employee count for each business entity.</li></ul>
--	--